NeighborWorks® Capital Corporation

Financial Statements
(With Supplementary Information)
and Independent Auditor's Report

December 31, 2016 and 2015

NeighborWorks® Capital Corporation

Index

Independent Auditor's Report

To the Board of Directors
NeighborWorks® Capital Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of NeighborWorks® Capital Corporation (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NeighborWorks® Capital Corporation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Guidance

As discussed in Note 2 to the financial statements, in 2016, NeighborWorks® Capital Corporation adopted new accounting guidance related to the presentation of debt issuance costs. Our report is not modified with respect to this matter.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2017, on our consideration of NeighborWorks® Capital Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NeighborWorks® Capital Corporation's internal control over financial reporting and compliance.

CohnReznick LLP

Bethesda, Maryland
April 21, 2017

NeighborWorks® Capital Corporation

Statements of Financial Position
December 31, 2016 and 2015

Assets

	2016	2015
Current assets:		
Cash and cash equivalents		
Operations	$ 1,947,878	$ 2,615,339
Operating restricted	355,688	320,956
Operating reserve	-	866,707
Loan capital	1,662,339	6,424,595
Loan loss reserve	-	1,157,063
Accounts receivable	34,048	10,975
Loans receivable, net (Note 3)	14,147,447	12,020,764
Interest receivable	190,489	136,465
Prepaid expenses	24,334	49,688
Total current assets	18,362,223	23,602,552
Investments	493,724	-
Loans receivable, net (Note 3)	46,466,724	40,694,622
Property and equipment		
Office furniture and equipment, net	47,261	17,004
Leasehold improvements, net	1,488	2,139
Total property and equipment, net	48,749	19,143
Other assets:		
Deposits	9,717	7,700
	9,717	7,700
Total assets	$ 65,381,137	$ 64,324,017

NeighborWorks® Capital Corporation

Statements of Financial Position
December 31, 2016 and 2015

Liabilities and Net Assets

	2016	2015
Current liabilities:		
Accounts payable and accrued liabilities	$ 223,931	$ 202,756
Accrued interest	39,195	86,476
Interest reserve (Note 5)	-	12,273
Notes payable (Note 6)	3,900,000	7,564,000
Total current liabilities	4,163,126	7,865,505
Notes payable, net of current portion and unamortized debt issuance costs (Note 6)	23,962,944	22,688,814
Equity equivalent investments (Note 6)	1,000,000	1,000,000
Total liabilities	29,126,070	31,554,319
Commitments and contingencies	-	-
Net assets		
Unrestricted:		
Operating	4,386,206	3,641,306
Board designated - operating reserve	-	866,707
Board designated - lending capital	5,899,453	4,375,280
Loan loss reserve	(2,209,686)	(2,125,508)
Total unrestricted net assets	8,075,973	6,757,785
Temporarily restricted (Note 7)	2,580,550	2,479,191
Permanently restricted (Note 8)	25,598,544	23,532,722
Total net assets	36,255,067	32,769,698
Total liabilities and net assets	$ 65,381,137	$ 64,324,017

See Notes to Financial Statements.

NeighborWorks® Capital Corporation

Statements of Activities
Year Ended December 31, 2016

	Unrestricted							
	Operations	Operating reserve	Lending capital	Loan loss reserve	Total unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue								
NeighborWorks® America grants	$ 150,000	$ -	$ -	$ -	$ 150,000	$ -	$ 2,150,000	$ 2,300,000
Community Development Institutions Fund	-	-	-	-	-	700,000	-	700,000
Contributions	-	-	-	-	-	-	-	-
Loan fee income, net of participatior	358,580	-	-	-	358,580	-	-	358,580
Interest income - loans	2,880,300	-	-	-	2,880,300	-	-	2,880,300
Investment and interest income	102	-	-	-	102	-	-	102
Loan service fee	22,720	-	-	-	22,720	-	-	22,720
Net assets released from restrictions:								
Satisfaction of program restriction	82,819	-	600,000	-	682,819	(598,641)	(84,178)	-
Total revenue	3,494,521	-	600,000	-	4,094,521	101,359	2,065,822	6,261,702
Expenses								
Program services								
Interest	800,812	-	-	-	800,812	-	-	800,812
Provision for loan loss	-	-	-	84,178	84,178	-	-	84,178
Program expenses	1,391,302	-	-	-	1,391,302	-	-	1,391,302
Total program services	2,192,114	-	-	84,178	2,276,292	-	-	2,276,292
Support services								
Management and general	344,911	-	-	-	344,911	-	-	344,911
Fundraising	155,130	-	-	-	155,130	-	-	155,130
Total support services	500,041	-	-	-	500,041	-	-	500,041
Total expenses	2,692,155	-	-	84,178	2,776,333	-	-	2,776,333
Transfers	(57,466)	(866,707)	924,173	-	-	-	-	-
Increase (decrease) in net assets	744,900	(866,707)	1,524,173	(84,178)	1,318,188	101,359	2,065,822	3,485,369
Net assets, beginning of year	3,641,306	866,707	4,375,280	(2,125,508)	6,757,785	2,479,191	23,532,722	32,769,698
Net assets, end of year	$ 4,386,206	$ -	$ 5,899,453	$ (2,209,686)	$ 8,075,973	$ 2,580,550	$ 25,598,544	$ 36,255,067

NeighborWorks® Capital Corporation

Statements of Activities
Year Ended December 31, 2015

	Unrestricted							
	Operations	Operating reserve	Lending capital	Loan loss reserve	Total unrestricted	Temporarily restricted	Permanently restricted	Total
Revenue								
NeighborWorks® America grants	$ 150,000	$ -	$ -	$ -	$ 150,000	$ -	$ 2,088,000	$ 2,238,000
Community Development Institutions Fund	-	-	-	-	-	-	-	-
Contributions	-	-	-	-	-	200,000	-	200,000
Loan fee income, net of participatior	229,813	-	-	-	229,813	-	-	229,813
Interest income - loans	3,178,084	-	-	-	3,178,084	-	-	3,178,084
Investment and interest income	7,040	-	-	-	7,040	-	-	7,040
Loan service fee	27,348	-	-	-	27,348	-	-	27,348
Net assets released from restrictions:								
Satisfaction of program restriction	55,301	-	603,577	-	658,878	(532,843)	(126,035)	-
Total revenue	3,647,586	-	603,577	-	4,251,163	(332,843)	1,961,965	5,880,285
Expenses								
Program services								
Interest	1,114,114	-	-	-	1,114,114	-	-	1,114,114
Provision for loan loss	-	-	-	126,035	126,035	-	-	126,035
Program expenses	1,137,895	-	-	-	1,137,895	-	-	1,137,895
Total program services	2,252,009	-	-	126,035	2,378,044	-	-	2,378,044
Support services								
Management and general	311,450	-	-	-	311,450	-	-	311,450
Fundraising	125,424	-	-	-	125,424	-	-	125,424
Total support services	436,874	-	-	-	436,874	-	-	436,874
Total expenses	2,688,883	-	-	126,035	2,814,918	-	-	2,814,918
Transfers	(370,156)	370,156	-	-	-	-	-	-
Increase (decrease) in net assets	588,547	370,156	603,577	(126,035)	1,436,245	(332,843)	1,961,965	3,065,367
Net assets, beginning of year	3,052,759	496,551	3,771,703	(1,999,473)	5,321,540	2,812,034	21,570,757	29,704,331
Net assets, end of year	$ 3,641,306	$ 866,707	$ 4,375,280	$ (2,125,508)	$ 6,757,785	$ 2,479,191	$ 23,532,722	$ 32,769,698

See Notes to Financial Statements.

NeighborWorks® Capital Corporation

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Changes in net assets	$ 3,485,369	$ 3,065,367
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization, property and equipment	11,437	10,188
Amortization, debt issuance costs	24,955	27,220
Provision for loan loss	84,178	126,035
Unrealized loss on investments	8,976	-
Changes in operating assets and liabilities		
Accounts receivable	(23,073)	26,424
Grant receivable	-	603,577
Interest receivable	(54,024)	(47,960)
Prepaid expenses	25,354	(20,012)
Deposits	(2,017)	(200)
Accounts payable and accrued liabilities	21,175	(15,001)
Accrued interest	(47,281)	10,696
Interest reserve	(12,273)	(39,670)
Net cash provided by operating activities	3,522,776	3,719,444
Cash flows from investing activities		
Purchases of investments	(502,700)	-
Advances on loans receivable	(29,458,475)	(23,398,376)
Repayments of loans receivable	21,475,512	26,925,972
Purchases of property and equipment	(41,043)	(5,166)
Net cash (used in) provided by investing activities	(8,526,706)	3,522,430
Cash flows from financing activities		
Proceeds from notes payable	11,700,000	5,075,955
Repayments on notes payable	(14,064,000)	(12,250,000)
Debt issuance costs paid	(50,825)	-
Net cash (used in) financing activities	(2,414,825)	(7,146,825)
Net (decrease) increase in cash and cash equivalents	(7,418,755)	95,049
Cash and cash equivalents, beginning	11,384,660	11,289,611
Cash and cash equivalents, end	$ 3,965,905	$ 11,384,660
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 823,138	$ 1,072,315
Significant noncash investing activities:		
Disposal of fully depreciated/amortized property and equipment	$ 7,061	-
	$ 7,061	$ -

See Notes to Financial Statements.

Note 1 - Organization

The NeighborWorks® Capital Corporation (the "Organization") is incorporated in the state of Colorado and is a national non-profit community development loan fund serving NeighborWorks® America's affiliates in all 50 states and the District of Columbia. The Organization is certified by the U.S. Department of the Treasury (the "Treasury") as a Community Development Financial Institution (CDFI).

The mission of the Organization is to deliver the flexible capital needed by NeighborWorks® America affiliates to provide affordable homes and strengthen communities. The Organization fulfills its mission by providing the NeighborWorks® America affiliates with low-cost capital for which they would not otherwise have access. The Organization's capital is available for the acquisition, preservation, construction, sale, financing or ownership of affordable single-family and multi-family properties and commercial projects. Primarily, the Organization receives support in the form of federal awards from the Treasury.

The Organization operates under a Master Investment Agreement (MIA) with NeighborWorks® America which allows for the provision of capital funds to support the mission of the Organization on an annual basis. On September 30, 2015, the Organization agreed to enter into a five-year Master Investment Agreement with NeighborWorks® America, which called for NeighborWorks® America to consider providing $1,000,000 to $2,500,000 annually in capital funds for the duration of the agreement to support the mission of the Organization.

Note 2 - Summary of significant accounting policies

Basis of presentation

The Organization's financial statements have been prepared on the accrual basis of accounting. The accompanying financial statements of the Organization have been prepared for the purpose of complying with the Master Investment Agreement between NeighborWorks® America and the Organization. The Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

- **Unrestricted net assets** - net resources of the Organization that bear no external restriction. These include the Organization's general operating net assets, lending capital, and loan loss reserves.

- **Temporarily restricted net assets** - NeighborWorks® America - capital funds that are allowed to be transferred from permanently restricted for the purpose of functioning as an allowance for loan loss against loans receivable or for other temporary restrictions approved by NeighborWorks® America. Increases in the provision of the allowance for loan loss are recorded as reductions in permanently restricted net assets, while recoveries in the provision of the allowance of loan loss are recorded as additions to permanently restricted net assets. A correlating amount of bad debt expense is recognized as part of the change in unrestricted net assets as the estimates of applicable increases and recoveries in the provision of the allowance for loan loss are measured. Temporarily restricted net assets also result from timing differences between receipt of funds and the incurrence of related expenses in accordance with donor stipulations. The Organization reports revenue of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

- **Permanently restricted net assets** - capital funds provided by NeighborWorks® America held in perpetuity, segregated and maintained as such to account for the prescribed eligible uses, which in accordance with the Master Investment Agreement between NeighborWorks® America and the Organization, are defined as being either 1) loaned as end borrower loans or 2) for use as a loan loss reserve and not to be used for non-capitalizable purposes such as paying operating and day-to-day expenses of the Organization. The Master Investment Agreement contains certain financial and production covenants, which the Organization was in compliance with as of December 31, 2016 and 2015.

Contributions
The Organization recognizes contributions related to fundraising activities, including unconditional promises to give, when received.

Cash and cash equivalents
In 2016, NeighborWorks Capital revised its cash management policy to more efficiently manage its unrestricted cash and cash equivalents and improve its return. The policy changes include a minimum requirement of $1,000,000 in operating cash and the creation of an investment account with a maximum of $900,000 to allow investments in mutual funds holding either mortgage backed or government backed securities to increase yield. Further, the policy eliminated the requirement to maintain separate cash accounts for operating reserve and loan losses. Those reserves were reallocated to loan capital to leverage unrestricted cash.

These revisions resulted in a decrease in cash and cash equivalents from $11,384,660 to $3,965,905. Cash and cash equivalent transfers consisted of $924,173 from Operating reserve to Operations and $1,076,000 from Loan loss reserve to Loan capital.

Cash and cash equivalents may include currency on hand, treasury bills, commercial paper or other investments with original maturities of three months or less or with provisions that provide liquidity enhancement. At December 31, 2016 and 2015, cash and cash equivalents include only unrestricted demand deposits with banks or government securities. The Organization places its cash with high credit quality financial institutions that are federally insured or invested in government securities. Invested cash may exceed federally insured amounts at times.

Investments
Cash policy changes in 2016 included the creation of an investment account with a maximum of $900,000 to allow investments in mutual funds holding either mortgage back or government backed securities to increase yield. A Schwab Investment account was created in July 2016 and was funded with $502,700 of excess Operations cash and cash equivalents. The funds were used to purchase shares in a GNMA mutual fund. As of December 31, 2016, the fair market value of the account was $493,724.

Fair Value Measurements
NeighborWorks Capital follows the accounting and disclosure standards pertaining to fair value measurements, for qualifying assets and liabilities. Fair value is defined as the price that NeighborWorks Capital would receive upon selling an asset or paying to settle a liability in an orderly transaction between market participants. The values of debt and equity securities and mutual funds are based on their quoted market prices. Gains and losses that result from market fluctuations are recognized in the statement of activities in the period such fluctuations occur.

NeighborWorks Capital uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of NeighborWorks Capital. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels. As follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement:

	2016			
Investments	**Level 1**	**Level 2**	**Level 3**	**Total**
GNMA mutual fund	$ 493,724	$ -	$ -	$ 493,724
	$ 493,724	$ -	$ -	$ 493,724

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
GNMA mutual fund	$ -	$ -	$ -	$ -
	$ -	$ -	$ -	$ -

The fair value of investments in government based mutual funds are based upon quoted prices in active markets for identical assets and are reflected as level 1 inputs.

Loans receivable

Loans receivable are carried at unpaid principal balances, less an allowance for loan losses and net deferred loan fees, if applicable. Interest on loans is generally recognized over the term of the loan and is calculated using the simple interest method on the principal amounts outstanding.

Allowance for loan loss

The allowance for loan loss is periodically adjusted to a level that, in management's judgment, is adequate to provide for estimated probable losses from loans. The amount of the allowance is based on management's formal review and analysis of potential losses. Management's review process considers the borrower's financial condition, property performance, real estate development staff capacity and experience, project viability, collateral, take-out financing, local real estate market, and project operating feasibility. At December 31, 2016 and 2015, the allowance for loan loss was $2,254,686 and $2,170,508, respectively, of which $795,800 and $769,524 relates to the current portion of loans receivable, respectively. The Organization's practice is to write off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial conditions, or for other reasons. During the years ended December 31, 2016 and 2015, no loans were written off. During the years ended December 31, 2016 and 2015, the Organization recognized no recovery on loans receivable previously written off. Since inception, as of December 31, 2016 and 2015, the Organization has cumulatively had $1,725,750 of loans receivable written off and $390,248 of recoveries of loans receivable previously written off.

Sales of loans receivable

The Organization accounts for transfer and servicing of financial assets based on the financial and servicing assets it controls and liabilities it has incurred. The Organization derecognizes financial assets when control has been surrendered and derecognizes liabilities when extinguished. This method conforms closely with current industry practice.

Deferred revenue

The Organization earns fees and incurs costs associated with originating loans receivable during the normal course of business. The portion of these costs that are attributable to originating loans receivable are netted against related fees earned. Net origination fees are deferred and recognized as an adjustment to interest income over the life of the loan. No deferred fees for costs were recorded for the years ended December 31, 2016 and 2015.

Property and equipment

Property and equipment consists of office furniture and equipment and leasehold improvements and are stated at cost. Depreciation on office furniture and equipment is computed on the straight-line basis over the estimated useful lives of these assets ranging from three to seven years. The Organization capitalizes office furniture and equipment that costs $1,000 or more. Leasehold improvements are amortized over the shorter of their useful lives or the term of the associated lease. As of December 31, 2016 and 2015, accumulated depreciation and amortization was $88,667 and $84,288, respectively, net of disposals during 2016 and 2015 of $7,061 and $0, respectively. Depreciation and amortization expense for the years ended December 31, 2016 and 2015 was $11,437 and $10,188, respectively.

Debt issuance costs

Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the mortgage loan payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed over the term of the loan using the straight-line method. In accordance with GAAP, debt issuance costs are to be amortized over the term of the loan using the effective yield method; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

Income taxes
The Organization has applied for and received a determination letter from the Internal Revenue Service ("IRS") to be treated as a tax-exempt entity pursuant to Section 501(c)(3) of the Internal Revenue Code and did not have any unrelated business income for the years ended December 31, 2016 and 2015. Due to its tax-exempt status, the Organization is not subject to income taxes. The Organization is required to file and does file tax returns with the IRS and other taxing authorities. Accordingly, these financial statements do not reflect a provision for income taxes, and the Organization has no other tax positions which must be considered for disclosure.

Tax returns filed by the Organization are subject to examination by the IRS for a period of three years. While no tax returns of the Organization are currently being examined by the IRS, tax returns filed since 2013 remain open for examination.

Functional expense allocation
The cost of providing various programs and other activities has been summarized on a functional basis in the Statements of Activities and in the accompanying Schedules of Functional Expenses. Accordingly, expenses are recorded to program services, management and general or fundraising based on specific allocation methodology.

Use of estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include an allowance for loan losses on loans receivable.

Subsequent events
Material subsequent events have been considered for recognition and disclosure in these financial statements through April 21, 2017, the date the financial statements were available to be issued.

Change in accounting principle
During 2016, the Organization adopted provisions of Accounting Standards Update 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), which modifies the presentation of debt issuance costs and the related amortization. The change in accounting under ASU 2015-03 improves the reporting of debt issuance costs by no longer reporting them as assets. It also improves the reporting of the related amortization by including it as a component of interest expense. ASU 2015-03 has been adopted by the organization on a retrospective basis. As a result, total assets as well as notes payable for the year ended December 31, 2015 have been reduced by the effect of the reclassification of debt issuance costs, net of accumulated amortization of $61,186.

Note 3 - Loans receivable

Loans receivable

The Organization offers the following loan products of varying terms and maturities:

- Pre-Development Loans - for funding needed to conduct due diligence and obtain site control of properties. Funds are typically used for environmental studies, market studies, appraisals, architectural and engineering expenses, legal fees and earnest money deposits.

Loans generally provided for up to $500,000 with a maximum loan term of 36 months; recourse basis and repayable upon closing of interim, construction or permanent financing.

- Interim Development Loans - for funding needed to bridge borrowers from the early due diligence phase of a project to the point when construction or permanent financing closes. Funds are typically used for acquisition, critical repairs and pre-development or other costs associated with securing construction/permanent financing. Loans provided for up to $5,000,000 with a maximum loan term of 48 months on a recourse basis secured by a mortgage or other collateral and are repayable upon closing of construction or permanent closing.

- Organizational Loans - for funding to address the enterprise level capital needs of NeighborWorks America affiliates. Loans provided up to $1,500,000 with a maximum loan term of 84 months and can be used to provide low-cost capital and grants to implement business assessment, strategic planning and capacity building work.

- Mini-Permanent Loans - for funding of acquisition and renovation of multi-family or commercial property or purchase of renewable energy systems with maximum loan amounts of $5,000,000 and a maximum loan term of 84 months on a recourse basis secured by a mortgage or other collateral.

- Permanent Loans - for funding of acquisition and renovation of small multi-family property with maximum loan amounts of $2,000,000 and a maximum loan term of 18 years on a recourse basis secured by a mortgage or other collateral.

The following is a summary of loans receivable at December 31, 2016 and 2015:

	2016		2015	
Type	Number of loans	Net loan amount	Number of loans	Net loan amount
Pre-development	12	$ 3,008,519	12	$ 4,511,968
Interim development	40	45,453,085	39	41,330,060
Organizational	3	2,508,913	-	-
Mini-permanent	11	10,498,340	17	9,043,866
Permanent	1	1,400,000	-	-
Total	67	62,868,857	68	54,885,894
Less: Allowance for loan losses		(2,254,686)		(2,170,508)
Total		60,614,171		52,715,386
Current portion		14,147,447		12,020,764
Long-term portion		$ 46,466,724		$ 40,694,622

Principal maturities of the remaining loans receivable as of December 31, 2016 are as follows:

2017	$	14,943,247
2018		15,355,411
2019		15,076,502
2020		-
2021		8,672,369
2022		2,141,367
2023		4,019,974
2027		1,259,987
2031		1,400,000
	$	62,868,857

Past-due loans

Loans are considered past due if the required principal and interest payments have not been received 30 days after the payments were due. The Organization generally places a loan on non-accrual status when interest or principal is past due 90 days or more. Interest on loans past due 90 days or more ceases to accrue interest except for loans that are in the process of collection. When a loan is placed on non-accrual status, previously accrued and unpaid interest is reversed out of interest income. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

An aging of past due loans, by loan type for the years December 31, 2016 and 2015:

December 31, 2016	Current	31-60 days past due	61-90 days past due	90+ days past due	Total	Nonaccruing loans
Pre-development	$ 3,008,519	$ -	$ -	$ -	$ 3,008,519	$ -
Interim development	45,453,085	-	-	-	45,453,085	-
Organizational	2,508,913	-	-	-	2,508,913	-
Mini-Permanent	9,325,604	1,172,736	-	-	10,498,340	-
Permanent	1,400,000	-	-	-	1,400,000	-
	$ 60,296,121	$ 1,172,736	$ -	$ -	$ 62,868,857	$ -
Nonaccruing loans	$ -	$ -	$ -	$ -	$ -	

December 31, 2015	Current	31-60 days past due	61-90 days past due	90+ days past due	Total	Nonaccruing loans
Pre-development	$ 4,511,968	$ -	$ -	$ -	$ 4,511,968	$ -
Interim development	41,330,060	-	-	-	41,330,060	-
Organizational	-	-	-	-	-	-
Mini-Permanent	9,043,866	-	-	-	9,043,866	-
Permanent	-	-	-	-	-	-
	$ 54,885,894	$ -	$ -	$ -	$ 54,885,894	$ -
Nonaccruing loans	$ -	$ -	$ -	$ -	$ -	

Risk management

The Organization revised its lending policies and procedures during 2016 to underwrite and monitor loans for its portfolio. For each loan, the Organization conducts a risk rating analysis based on the loan type (pre-development, interim development, mini-permanent, permanent, organizational) by reviewing the following criteria: financial condition, property performance, real estate development staff capacity and experience, project viability, collateral, take-out financing, local real estate market, and project operating feasibility. Each criterion is rated and an overall rating is determined based on the primary source of repayment. The six rating categories are pass-1 (P-1), pass-2 (P-2), pass-3 (P-3), questionable, substandard and doubtful. Pass-1 through pass-3 represent loans that are performing and require only standard monitoring quarterly or semi-annually as approved at initial underwriting. When the risk rating on a loan has been listed as questionable or substandard, the loan is deemed to not be performing as expected and a loss on a loan is considered possible but has not yet been determined. When the risk rating on a loan has been listed as doubtful, it is considered to be a partially or fully uncollectible loan. The Organization conducts a comprehensive review of all outstanding loans at least annually. In 2016, the Organization's Board of Directors approved revisions to the risk ratings.

As part of the Organization's risk rating analysis, a corresponding reserve has been allocated to each loan in the loan portfolio. The total of these reserves as indicated by the Organization's risk rating analysis for the years ended December 31, 2016 and 2015 was $2,254,686 (3.59% of the loan portfolio) and $2,170,538 (3.95% of the loan portfolio), respectively. Additionally, the Organization records and maintains an overall minimum allowance for loan losses of at least 3.50% of the loan portfolio as required by various investors' covenants for the year ended December 31, 2016 and 2015. For the years ended December 31, 2016 and 2015, the allowance for loan losses per this requirement was $2,200,410 and $1,921,066, respectively. The Organization, based on revised financial policies, no longer maintains a separate deposit account for loan losses based on a specific calculation relating to risk rating by loan type.

The table below details the Organization's loans by loan type according to their risk rating categories for the years December 31, 2016 and 2015:

December 31, 2016	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Pre-development	$ 800,000	$ 2,008,519	$ -	$ 200,000	$ -	$ -	$ 3,008,519
Interim development	1,259,983	38,351,472	4,081,630	1,760,000	-	-	45,453,085
Organizational	-	2,508,913	-	-	-	-	2,508,913
Mini-permanent	431,562	7,390,202	2,676,576	-	-	-	10,498,340
Permanent		1,400,000	-	-	-	-	1,400,000
	$ 2,491,545	$ 51,659,106	$ 6,758,206	$ 1,960,000	$ -	$ -	$ 62,868,857

	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Current	$ 2,491,545	$ 51,659,106	$ 5,585,470	$ 1,960,000	$ -	$ -	$ 61,696,121
Past due 31- 60 days	-	-	1,172,736	-	-	-	1,172,736
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	$ 2,491,545	$ 51,659,106	$ 6,758,206	$ 1,960,000	$ -	$ -	$ 62,868,857

December 31, 2015	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Pre-development	$ 1,400,000	$ 2,200,000	$ 911,968	$ -	$ -	$ -	$ 4,511,968
Interim development	-	32,135,864	7,434,196	1,760,000	-	-	41,330,060
Mini-permanent	1,557,731	5,302,360	2,183,774	-	-	-	9,043,866
	$ 2,957,731	$ 39,638,224	$ 10,529,938	$ 1,760,000	$ -	$ -	$ 54,885,894

	P-1	P-2	P-3	Questionable	Substandard	Doubtful	Total
Current	$ 2,957,731	$ 39,638,224	$ 10,529,938	$ 1,760,000	$ -	$ -	$ 54,885,894
Past due 31- 60 days	-	-	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-	-	-
Past due 90+ days	-	-	-	-	-	-	-
	$ 2,957,731	$ 39,638,224	$ 10,529,938	$ 1,760,000	$ -	$ -	$ 54,885,894

The following table presents an analysis of the allowance for loan losses for the years ended December 31, 2016 and 2015:

December 31, 2016	Pre-development	Interim development	Organizational	Mini-permanent	Permanent	Total
Beginning balance	$ 143,598	$ 1,702,250	$ -	$ 324,660	$ -	$ 2,170,508
(Recovery) provision for loan losses	(32,605)	(55,646)	75,267	55,162	42,000	84,178
Write-off	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Ending balance	$ 110,993	$ 1,646,604	$ 75,267	$ 379,822	$ 42,000	$ 2,254,686

	Pre-development	Interim development	Organizational	Mini-permanent	Permanent	Total
Allowance for loan losses						
Allocated	$ 105,298	$ 1,590,858	$ 87,812	$ 367,442	$ 49,000	$ 2,200,410
General	5,695	55,746	(12,545)	12,380	(7,000)	54,276
	$ 110,993	$ 1,646,604	$ 75,267	$ 379,822	$ 42,000	$ 2,254,686
Loans						
Impaired loans	$ -	$ -	$ -	$ -	$ -	$ -
Non-impaired loans	3,008,519	45,453,085	2,508,913	10,498,340	1,400,000	62,868,857
	$ 3,008,519	$ 45,453,085	$ 2,508,913	$ 10,498,340	$ 1,400,000	$ 62,868,857

December 31, 2015	Pre-development	Interim development	Organizational	Mini-permanent	Permanent	Total
Beginning balance	$ 163,275	$ 1,562,609	$ -	$ 318,589	$ -	$ 2,044,473
(Recovery) provision for loan losses	(19,677)	139,641	-	6,071	-	126,035
Write-off	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Ending balance	$ 143,598	$ 1,702,250	$ -	$ 324,660	$ -	$ 2,170,508

	Pre-development	Interim development	Organizational	Mini-permanent	Permanent	Total
Allowance for loan losses						
Allocated	$ 157,919	$ 1,446,552	$ -	$ 316,535	$ -	$ 1,921,006
General	(14,321)	255,698	-	8,125	-	249,502
	$ 143,598	$ 1,702,250	$ -	$ 324,660	$ -	$ 2,170,508
Loans						
Impaired loans	$ -	$ -	$ -	$ -	$ -	$ -
Non-impaired loans	4,511,968	41,330,060	-	9,043,866	-	54,885,894
	$ 4,511,968	$ 41,330,060	$ -	$ 9,043,866	$ -	$ 54,885,894

The Organization did not have any loan modifications that were considered troubled debt restructurings for the years ended December 31, 2016 and 2015. The Organization determined that the allowance for loan losses was adequate and the Organization did not have any impaired loans for the years ended December 31, 2016 and 2015.

Note 4 - Transfer of loans, other off-balance sheet assets and Servicing

The Organization has entered into certain loan participation agreements with other organizations. The Organization has accounted for these loan participations as sales as of December 31, 2016 and 2015. There was no gain or loss recognized on the sale of these participation interests. The total balance of loan participations serviced was $5,488,618 and $13,064,392 as of December 31, 2016 and 2015, respectively.

The Organization has retained the servicing rights on participations recorded as sales. The total amount of the servicing fees charged approximates the cost of servicing and, accordingly, the Organization has not recorded a servicing asset or servicing liability as of December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015, loan participation interest expense totaling $448,591 and $625,965, respectively, was incurred and included as a component of interest income - loans on the accompanying statements of activities. As of the years ended December 31, 2016 and 2015, loan participation interest expense payable was $8,300 and $18,399, respectively, and is included as a component of accrued interest on the accompanying statements of financial position.

Note 5 - Interest reserve

The interest reserve represents funds withheld from loan disbursements. The reserves are held by the Organization and used to make loan interest payments on behalf of borrowers. During 2016, the loans being reserved were paid off. The balance of interest reserve was $0 and $12,273 as of December 31, 2016 and 2015, respectively.

Note 6 - Notes payable and equity equivalent investments

All notes payable and equity equivalent investments ("EQ2") are unsecured. Debt financing provides the Organization with a source of capital that can be loaned to NeighborWorks® America affiliate borrowers through the various types of loan products available from the Organization. Additionally, certain of these note payable and equity equivalent investments contain covenants that require the Organization to provide reporting on a periodic basis and to meet and maintain specific financial ratios. As of December 31, 2016, the Organization was in compliance with all covenants. The Organization's notes payable and equity equivalent investments consisted of the following as of December 31, 2016 and 2015:

Lender	Total credit facilitity commitments at 12/31/2016	Maturity date	Schedule repayments: Principal Amount	Schedule repayments: Principal Due	Schedule repayments: Interest Annual rate	Schedule repayments: Interest Due	Principal balance at 12/31/2016	Principal balance at 12/31/2015
Charles Schwab Bank	$ 10,000,000	9/30/2019	$ 10,000,000	Maturity	90-day LIBOR + 2.75% with a floor of 3.50%	Quarterly	$ -	$ 3,064,000
Bank of America	8,000,000	12/24/2023	2,000,000	12/24/2020	3.25%	Quarterly	8,000,000	8,000,000
			2,000,000	12/24/2021				
			2,000,000	12/24/2022				
			2,000,000	12/24/2023				
Deutsche Bank	7,000,000	12/21/2019	7,000,000	Maturity	30 Day LIBOR + 2.5%	Quarterly	-	1,500,000

Lender	Total credit facilitity commitments at 12/31/2016	Maturity date	Schedule repayments: Principal Amount	Schedule repayments: Principal Due	Schedule repayments: Interest Annual rate	Schedule repayments: Interest Due	Principal balance at 12/31/2016	Principal balance at 12/31/2015
Wells Fargo	7,000,000	12/19/2017	7,000,000	Maturity	2.65% + 30 Day LIBOR	Monthly	3,900,000	1,000,000
Ally Bank	5,000,000	12/21/2018	250,000	3/31/2018	3.25%	Quarterly	5,000,000	5,000,000
			250,000	6/30/2018				
			250,000	9/30/2018				
			4,250,000	12/21/2018				
Branch Banking & Trust (BB&T)	5,000,000	8/1/2018	5,000,000	Maturity	3.25%	Monthly	1,000,000	3,000,000
The Kresge Foundation	5,000,000	5/29/2022	1,080,000	5/29/2020	1.50%	Quarterly	3,600,000	-
			1,080,000	5/29/2021				
			1,440,000	5/29/2022				
Morgan Stanley	4,000,000	12/17/2019	4,000,000	Maturity	30 day LIBOR + 2.50% with 2.74% Floor	Monthly	1,500,000	1,000,000
TD Bank	3,750,000	5/31/2018	3,750,000	Maturity	3.0%+ 30 Day LIBOR	Monthly	-	3,750,000
HSBC Bank	3,000,000	6/30/2022	3,000,000	Maturity	Cost of Funds +75 BP Max 3.00%	Quarterly	-	-
PNC Bank	2,000,000	12/19/2021	2,000,000	Maturity	3.00%	Monthly	2,000,000	2,000,000
PNC Bank	2,000,000	12/19/2021	2,000,000	Maturity	30 day LIBOR +2.5%	Monthly	-	-
Capital One Bank	1,000,000	10/1/2018	1,000,000	Maturity	1.00%	Quarterly	1,000,000	1,000,000
CDFI Fund	488,045	6/23/2024	488,045	Maturity	2.00%	Semi-Annual	488,045	488,045
CDFI Fund	511,955	6/11/2028	511,955	Maturity	1.95%	Semi-Annual	511,955	511,955
CDFI Fund	950,000	6/6/2029	950,000	Maturity	2.50%	Semi-Annual	950,000	-
Total notes payable	**64,700,000**						**27,950,000**	**30,314,000**
Equity equivalent investments								
Wells Fargo EQ2	1,000,000	9/19/2022	1,000,000	Maturity	2.00%	Quarterly	1,000,000	1,000,000
Total equity equivalent investments	1,000,000						1,000,000	1,000,000
Total notes payable and equity equivalent investments	**$ 65,700,000**						**$ 28,950,000**	**$ 31,314,000**

Undrawn commitments on credit facilities at December 31, 2016 and 2015 were $36,750,000 and $24,936,000, respectively.

The following schedule lists the maturities of all notes payable and equity equivalent investments at December 31, 2016:

2017	$	3,900,000
2018		7,000,000
2019		1,500,000
2020		3,080,000
2021		5,080,000
Thereafter		8,390,000
	$	28,950,000

Debt issuance costs, net of accumulated amortization, totaled $87,056 and $61,196 as of December 31, 2016 and 2015, respectively.

Note 7 - Temporarily restricted net assets

Temporarily restricted net assets as of December 31, 2016 and 2015 are as follows:

Temporarily Restricted Net Assets

	2016			
	12/31/2015	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2016
Operations				
NeighborWorks® America Expendable Grants - Home Depot Award	$ 135,478	$ -	$ (6,250)	$ 129,228
NeighborWorks® America Expendable Grants - Home Depot Award NeighborWorks® America - Match	-	-	-	-
Community Development Financial Institutions Program - Financial Assistance	-	700,000	(600,000)	100,000
Grants from Banks and Foundations	173,205	-	(76,569)	96,636
Total Operations	308,683	700,000	(682,819)	325,864
Lending Activity				
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(1,725,750)	-	-	(1,725,750)
Loan Loss Reserve Provision	3,896,258	-	84,178	3,980,436
Total Lending activity	2,170,508	-	84,178	2,254,686
Total	$ 2,479,191	$ 700,000	$ (598,641)	$ 2,580,550

	2015			
	12/31/2014	Contributions received (contributions refunded)	Satisfaction of program restrictions	12/31/2015
Operations				
NeighborWorks® America Expendable Grants - Home Depot Award	$ 163,984	$ -	$ (28,506)	$ 135,478
NeighborWorks® America Expendable Grants - Home Depot Award NeighborWorks® America - Match	-	-	-	-
Community Development Financial Institutions Program - Financial Assistance	603,577		(603,577)	-
Grants from Banks and Foundations	-	200,000	(26,795)	173,205
Total Operations	767,561	200,000	(658,878)	308,683
Lending Activity				
Loans written off, approved by NeighborWorks® America for Release of Restrictions	(1,725,750)	-	-	(1,725,750)
Loan Loss Reserve Provision	3,770,223	-	126,035	3,896,258
Total Lending activity	2,044,473	-	126,035	2,170,508
Total	$ 2,812,034	$ 200,000	$ (532,843)	$ 2,479,191

Note 8 - Permanently restricted net assets

Permanently restricted net assets as of December 31, 2016 and 2015 are as follows:

Permanently Restricted Net Assets

	2016			
	12/31/2015	Contributions received (contributions refunded)	Reclassification to Temporarily Restricted	12/31/2016
NeighborWorks® America Revolving Loan & Capital Projects Fund	$ 27,428,980	$ 2,150,000	$ -	$ 29,578,980
Loan Loss Reserve Provision	(3,896,258)	-	(84,178)	(3,980,436)
Total	$ 23,532,722	$ 2,150,000	$ (84,178)	$ 25,598,544

	2015			
	12/31/2014	Contributions received (contributions refunded)	Reclassification to Temporarily Restricted	12/31/2015
NeighborWorks® America Revolving Loan & Capital Projects Fund	$ 25,340,980	$ 2,088,000	$ -	$ 27,428,980
Loan Loss Reserve Provision	(3,770,223)	-	(126,035)	(3,896,258)
Total	$ 21,570,757	$ 2,088,000	$ (126,035)	$ 23,532,722

Note 9 - Loan commitments - NeighborWorks® America affiliates

As of December 31 2016 and 2015, the Organization has committed to make loans to various NeighborWorks® America affiliates totaling $13,799,257 and $10,613,196, respectively.

Note 10 - Lease obligations

On July 3, 2008, the Organization entered into a non-cancelable, five-year operating lease for office space in Silver Spring, Maryland commencing in October 2008. On December 20, 2013, an amendment to the lease was executed, extending the lease for five years until March 31, 2019 and changing premises. The lease contains escalation clauses and charges for other costs related to the space. The Organization also leases office space for program and administrative services in Colorado and North Carolina under cancelable agreements. The lease for office space in Colorado was cancelled as of January 2017. Future minimum rent payments due under the non-cancelable lease as of December 31, 2016 are summarized as follows:

2017	$	85,548
2018		88,119
2019		22,138
	$	195,805

Rent expense for the years ended December 31, 2016 and 2015 was $117,887 and $88,016, respectively.

Note 11 - Pension plan

During 2016 and 2015, the Organization maintained a defined contribution pension plan pursuant to section 401(k) of the Internal Revenue Code. Employer contributions to the plan during the years ended December 31, 2016 and 2015 totaled $46,837 and $44,906, respectively.

Note 12 - Related party transactions

The Organization, or its predecessors, has extended loans to entities or their affiliates that have had representation on its Board of Directors and/or its Loan Committee. For the years ended December 31, 2016 and 2015, the Organization had two and eight loans outstanding totaling $4,801,500 and $6,214,125, respectively, of loans receivable, respectively, to such entities or their affiliates.

Note 13 - Available lending capital

The Organization's available lending capital consists of unsecured loans from financial institutions, government agencies and foundations combined with board designated unrestricted net assets and permanently restricted net assets (Note 8) associated with lending capital. As required by GAAP, net assets associated with lending capital, including funds designated by the Board of Directors to function as lending capital, are classified and reported based upon the existence of donor-imposed restrictions. The composition, by source, of total lending capital at December 31, 2016 and December 31, 2015 is as follows:

	2016	2015
Notes payable and EQ2s	$ 28,950,000	$ 31,314,000
Undrawn credit facility commitments	36,750,000	24,936,000
Board designated - lending capital	5,899,453	4,375,280
Permanently restricted	25,598,544	23,532,722
Total available lending capital	$ 97,197,997	$ 84,158,002

As of December 31, 2016 and 2015, total lending capital deployed as loans receivable, net of the allowance for loan losses, was $60,614,171 and $52,715,386, respectively.

Supplementary Information

NeighborWorks® Capital Corporation

Schedules of Functional Expenses
Years Ended December 31, 2016 and 2015

	2016				2015			
Expenditures	Program services	Management and general	Fundraising	Total	Program services	Management and general	Fundraising	Total
Salaries and benefits	$ 871,733	$ 233,862	$ 109,784	$ 1,215,379	$ 698,624	$ 217,104	$ 90,046	$ 1,005,774
Interest	800,812	-	-	800,812	1,114,114	-	-	1,114,114
Service fee expense	10,941	-	-	10,941	11,728	-	-	11,728
Professional fees	137,211	70,983	21,475	229,669	81,115	60,652	15,073	156,840
Occupancy	94,310	17,683	5,894	117,887	70,413	13,202	4,401	88,016
Office expenses	19,355	1,936	215	21,506	16,249	1,625	181	18,055
Grant expense	19,838	-	-	19,838	34,301	-	-	34,301
Travel	94,102	5,535	11,071	110,708	58,254	3,427	6,853	68,534
Telephone	18,404	2,165	1,083	21,652	16,637	1,957	979	19,573
Special events and board retreats	9,897	1,747	-	11,644	20,300	3,582	-	23,882
Depreciation and amortization, property and equipment	8,580	2,285	572	11,437	7,642	2,037	509	10,188
Marketing	28,348	-	3,150	31,498	52,202	-	5,800	58,002
Insurance	15,213	1,790	895	17,898	14,382	1,692	846	16,920
Miscellaneous	5,565	984	-	6,549	6,749	1,193	-	7,942
Repairs and maintenance	39,753	3,975	442	44,170	32,894	3,289	365	36,548
Dues	8,618	958	-	9,576	9,948	1,105	-	11,053
Staff development	7,792	917	458	9,167	3,605	427	212	4,244
Printing	1,642	91	91	1,824	2,851	158	159	3,168
Provision for loan loss	84,178	-	-	84,178	126,035	-	-	126,035
	$ 2,276,292	$ 344,911	$ 155,130	$ 2,776,333	$ 2,378,044	$ 311,450	$ 125,424	$ 2,814,918

NeighborWorks® Capital Corporation

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2016

Federal Grantor/Pass-through Grantor/ Program or Cluster Titles	Federal CFDA Number	Federal Expenditures
U.S. Department of Treasury		
Passed through NeighborWorks® America Neighborhood Reinvestment Corporation Act:		
Capital Grant Funds	21.000	$ 27,853,230
Expendable Grant Funds	21.000	150,000
		28,003,230
Community Development Financial Institutions Fund Program:		
Financial Assistance	21.020	2,162,532
Loan Program	21.020	1,950,000
		4,112,532
Total Federal Programs		$ 32,115,762

NeighborWorks® Capital Corporation

Notes to Schedule of Expenditures of Federal Awards
December 31, 2016

Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity for NeighborWorks® Capital Corporation and is presented on the accrual basis of accounting. The information in the schedule of expenditures of federal awards is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of NeighborWorks® Capital Corporation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of NeighborWorks® Capital Corporation.

Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, "Cost Principles of Non-Profit Organizations." NeighborWorks® Capital Corporation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 - U.S. Department of Treasury Community Development Financial Institutions Fund - Loan Program

NeighborWorks® Capital Corporation has received three loans directly from the U.S. Department of Treasury Community Development Financial Institutions (CDFI) Fund Program. The loan balance outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at December 31, 2016 consists of:

CFDA Number	Program Name	Outstanding Balance at December 31, 2016
21.020	CDFI Fund - Loan Program	$ 1,950,000

Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
NeighborWorks® Capital Corporation

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of NeighborWorks® Capital Corporation, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated April 21, 2017, which included an emphasis of matter paragraph as indicated on page 3.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements we considered NeighborWorks® Capital Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NeighborWorks® Capital Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of NeighborWorks® Capital Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combinations of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of NeighborWorks® Capital Corporation's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control, that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NeighborWorks® Capital Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and results of that testing, and not to provide an opinion on the effectiveness of NeighborWorks® Capital Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NeighborWorks® Capital Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
April 21, 2017

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
NeighborWorks® Capital Corporation

Report on Compliance for Each Major Federal Program

We have audited NeighborWorks® Capital Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of NeighborWorks® Capital Corporation's major federal programs for the year ended December 31, 2016. NeighborWorks® Capital Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of NeighborWorks® Capital Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance")*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about NeighborWorks® Capital Corporation's compliance with these requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of NeighborWorks® Capital Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, NeighborWorks® Capital Corporation complied in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of NeighborWorks® Capital Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NeighborWorks® Capital Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NeighborWorks® Capital Corporation's internal control over compliance.

A deficiency in *internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a *material weakness* in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be *material weaknesses* or *significant deficiencies*. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CohnReznick LLP

Bethesda, Maryland
April 21, 2017

NeighborWorks® Capital Corporation

Schedule of Findings and Questioned Costs
December 31, 2016

A. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of NeighborWorks® Capital Corporation were prepared in accordance with generally accepted accounting principles.

2. No material weaknesses related to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. No significant deficiencies were reported.

3. No instances of noncompliance material to the financial statements of NeighborWorks® Capital Corporation which would be required to be reported in accordance with *Government Auditing Standards,* were disclosed during the audit.

4. No material weaknesses in internal control over major federal award programs were disclosed during the audit and reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance. No significant deficiencies were reported.

5. The auditor's report on compliance for the major federal award programs for NeighborWorks® Capital Corporation expresses an unmodified opinion on all major programs.

6. There are no audit findings required to be reported in accordance with 2 CFR Section 200.516(s) in this Schedule.

7. The programs tested as major programs were:

   U.S. Department of Treasury - Neighborhood Reinvestment Corporation Act, CFDA No. 21.000

   U.S. Department of Treasury - Community Development Financial Institutions Fund Program, CFDA No. 21.020

8. The threshold for distinguishing Type A and B programs was $963,473

9. NeighborWorks® Capital Corporation was determined to be a low-risk auditee.

B. Findings - Financial Statement Audit

None

C. Findings and Questioned Costs - Major Federal Award Programs

None